

# Business Ethics in Germany

## Problems, Concepts, and Functions

### *Unternehmensethik in Deutschland. Probleme, Konzepte und Funktionen*

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*This paper addresses the question of why business ethics did not become a standard part of research and academic education in German-speaking countries until now. It traces this trend back to experiences of the dictatorship prior to World War II. Until the 1980s, Max Weber's concept of value-free scientific statements dominated the discipline. Since the mid-1980s, several positions and concepts of business ethics have been suggested, all of which failed to garner the acceptance of business ethics. Therefore, an alternative, analytical concept of business ethics is developed which separates between logical, empirical and normative dimensions of ethical problems.*

*Keywords: Business Ethics, Teaching Business Ethics, Business Administration, Analytical Business Ethics*

#### 1. Motivation of the paper

In Germany, business administration (“Betriebswirtschaftslehre”) has become an important discipline in academics and practice. Within the last thirty years, the number of students at universities<sup>1</sup> has increased from 30,000 to 160,000 in this discipline (Küpper 2007: 514ff.). The labour market for their graduates seems to be very attractive. The importance of the economy in Germany, Europe and a globalised world has been the driving force behind this development.

In contrast to Anglo-American countries, business ethics does not usually form part of curricula in business administration. Until now, the curricula of German universities have been standardised to a high degree. They include lectures on management functions such as production, marketing, accounting, etc., but not on business ethics. However, ethical problems are obviously relevant in the German economy and German society. After World War II the conflict between socialistic and free market economic concepts dominated the political (and to some degree the academic) discussion until 1989. Since the middle of the 1990s, however, several scandals in US American and German firms such as Enron, VW and Siemens have demonstrated the necessity of business ethics. Corporate governance systems began to be debated in practice and

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academics. Different boards, installed by government and by big companies, elaborated codes of (ethical) conduct for firms.

In this paper I will analyse the background of this discrepancy between the importance of business ethics in German practice on the one hand and its underrepresentation in academic education on the other. Several reasons for this development are given in section 2. Since the mid-1980s of the last century, several concepts of business ethics were developed in Germany. Their basic ideas are reflected in part 3 whereby I will analyse why they have not yet found prominence in standard curricula. Subsequently, part 4 develops an alternative concept of business ethics, which better coincides with the patterns of research and education in German business administration.

## 2. The dearth of business ethics in German-speaking research and education in business administration

### 2.1 The situation after World War II

After World War II, the situation of German academics was influenced by the experiences of the prior dictatorship. Before 1945, universities had been integrated into the political system, and some academics had followed its ideas. In particular, those academics in business administration who represented normative conceptions, e.g., *Heinrich Nicklisch* (1933a; 1933b; 1935), belonged to this group (Sandig 1933; Thoms 1938). Others, including *Eugen Schmalenbach*, an outstanding representative of German academics in this discipline until 1950, *Erich Gutenberg* and those with a Christian background<sup>2</sup>, had to retire between 1933 and 1945.

According to *Dieter Schneider* (2001: 230), this experience significantly influenced the attitude of academics in business administration in the western German-speaking countries after World War II. They were sceptical of all normative positions and wanted to be as objective as possible. This view was strengthened by the conflict with communism and its centrally planned economy. This explains why only very few academics developed normative concepts<sup>3</sup> or discussed ethical positions in the discipline before 1985 (Küpper 1992: 500).

### 2.2 The basic position of value-free scientific statements

That is not to say that the normative foundations of this discipline were not discussed in Germany. A lot of books and papers dealt with its scientific basis<sup>4</sup>. Most of them, in line with the discipline's mainstream, accepted and referred to *Max Weber* (1988a: 146ff.; 1988b: 489ff.; 1988c: 600ff.). His concept of *value-free scientific statements* distinguishes between several *levels of analysis* in sciences. On one level, values and value

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<sup>2</sup> Such as Guido Fischer (1964: 55ff.).

<sup>3</sup> Exceptions are Loitsberger (1971), Staehle (1973) and WSI (1974).

<sup>4</sup> See especially Moxter (1957) and Wöhe (1959), two very famous representatives between 1960 and 1985.

judgements may be analysed scientifically. On a different level, any scientific discipline includes fundamental decisions such as standards and methods of scientific work and the selection of research issues. These decisions are inevitably based on value judgements. The “meta-statements” on this level have to be clearly separated from those statements concerning the objects of study which form the core of a discipline. The concept of value-free scientific statements requires scientific statements to be testable and not to include value judgements. Every scientific expert shall be able to examine the validity of statements. Therefore, the goal of a scientific discipline is not to make recommendations but to find the truth.

As most academics in German business administration accepted this concept, they tried to avoid normative positions to the greatest possible extent and were thus very sceptical of ethics. But the position of the discipline was not free of *contradictions*. Although the value-free concept was adopted, many of the discipline’s statements included recommendations. In fields such as financial accounting, taxing or organisational structure, principles like the IFRS (International Financial Reporting Standards) are not merely analysed. There are normative discussions on such principles; academics discuss their *justification* and make *recommendations* on them. Therefore, reality does not at all coincide with the proclaimed position.

### 3. Problems of normative positions in business ethics

#### 3.1 Relevance and effects of normative decision theory

Normative decision theory<sup>5</sup> has been developed in economic sciences since the 1940s. It forms the basis of many normative and positive theories<sup>6</sup> in economics and business administration. Normative decision theory examines *principles* and *rules of rational behaviour*. It makes recommendations for solving decision problems in a rational manner (Laux 2005: 2). To do this, basic order axioms, transitivity etc., are seen as prerequisites for rational decisions<sup>7</sup>. Principles and rules are developed for multicriteria and group decisions as well as decisions under uncertainty.

In normative decision theory, such *norms of rationality* are debated intensively and are even endorsed. Hence, the concept of value-free statements does not hold with respect to these aspects of business administration. Developed concepts of rationality<sup>8</sup> are used in many fields of research in business administration (accounting, finance, production, etc.) and have influenced education at universities to a high degree. Nor-

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<sup>5</sup> Early contributions to the development of normative decision theory are von Neumann/Morgenstern (1944) and Luce/Raiffa (1957).

<sup>6</sup> Cf. Game Theory, Principal-Agent-Theory, or the Capital Asset Pricing Model (CAPM). See Macho-Stadler/Perez-Castrillo (2001), Laffont/Martimort (2002) and Bolton/Dewatripont (2005) for recent surveys on principal agent theory, Myerson (1997) for a comprehensive book on game theory and Sharpe (1964); Lintner (1965) as well as Mossin (1966) for the foundations of the CAPM.

<sup>7</sup> See von Neumann/Morgenstern (1944: 24ff.), Luce/Raiffa (1957: 25ff.).

<sup>8</sup> Such as the use of the Bernoulli principle in accounting and finance (Christensen/Feltham 2003; Christensen/Feltham 2005).

mative decision theory and its concept of rationality can be seen as a normative and ethical basis for many academics in economics and business administration. Most of these academics therefore do not see the need for a further ethical basis.

### 3.2 Economically based positions against business ethics

Throughout the last twenty years there has been an increasing discussion on the relationship between economic theory and ethics in German-speaking countries<sup>9</sup>. Conflicting positions range from the complete disapproval of ethics in economics to the proposition that the discipline must be controlled by ethics.

The first position is based on a broad acceptance of normative decision theory and its concepts. Prominent German representatives of business administration as an academic discipline, such as *Dieter Schneider* (1990; 2001: 317-24) and *Herbert Hax* (1993; 1995), president of the German Council of Economic Experts between 1992-2000, are opposed to business ethics as an integral part of research and education in business administration. Their views are based on the economic theory of free markets and relate to the positions of *Friedrich von Hayek* (1976) and *Milton Friedman* (1970) who say that the ethical duty of entrepreneurs and managers is to make profits. *Hax*, for example, asks for *proof* “that business ethics has the capability to prevent or at least to limit the degree of harmful activities” (Hax 1993: 77).

By stating that “business administration *is* business ethics” (Albach 2005: 809), *Horst Albach*<sup>10</sup> takes a seemingly contrary position. However, his central argument is that “the preoccupation with business ethics is superfluous” (ibid: 809), which eventually leads to the same rejection: in his view, business administration does not need business ethics. He refers to the principles of a free market system and deduces several principles of business administration such as efficiency, self-determination, and financial equilibrium. According to his view, these principles are founded in the market system itself. He does not see the necessity of complementing them with special ethical norms.

*Schneider*, *Hax* and *Albach* represent many academics and managers who turn *against* those ethical concepts that seek to keep the economy under control. For them, ethics as well as business ethics are solely, or at least primarily, a normative discipline, which recommends norms and principles that conflict with economic criteria such as the efficiency of free market systems. The *central reason* for their opposition to ethical analyses in business administration is their *specific view of ethics* and business ethics. In my eyes, this conception of ethics is too narrow. Ethics, understood as the science of morality (Kluxen 1999: 152ff.; Pieper 2003: 17), is not necessarily about recommending norms, principles and rules but, rather, about *analysing* and *discussing* them. That implies logical and empirical arguments; ethics is not limited to normative reasoning. As firms are confronted with conflicts between financial and moral criteria in practice,

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<sup>9</sup> For an analysis of papers, books and handbooks, see Küpper (1992: 500; 2006: 4f.).

<sup>10</sup> The editor of one of the most important German academic business journals and a member of the German Council of Economic Experts, Albach is another prominent representative of German academics in business administration after 1960.

it is necessary to analyse such conflicts in business administration. Many examples of moral problems and scandals in reality support this stance.

### 3.3 Philosophically based positions of business ethics

Since the 1980s, different concepts of business ethics have been developed in German-speaking countries. These concepts relate to the long tradition of ethics in philosophy and theology in Europe. Two branches that represent opposing conceptions are most important at the moment: the concept of *Karl Homann* on the one hand and that of *Horst Steinmann* and *Peter Ulrich* on the other. *Homann* stands for ‘economics-based ethics’, i.e. ethics by means of economic models, whereas the concepts of *Steinmann* and *Ulrich* are based on discourse ethics.

#### 3.3.1 The concept of economics-based ethics by Karl Homann

The characteristic feature of *Homann*’s approach to economic and business ethics<sup>11</sup> is to use *methods* and *models of economics in ethics* (Homann 1997; 1999). An important task of ethical analyses is “to reconstruct moral norms and ideals as – non-monetary – ‘advantages’ and ... to analyse them as economic calculations” (Homann 1999: 334). He emphasizes the problem of attaining accepted moral norms. Their only chance of being implemented in society is when there are incentives to follow them. Therefore, he does not focus on the normative problem of justifying moral norms but on implementing them under the conditions of a modern economy and society (Homann/Blome-Drees 1992: 14).

Central economic and other norms of a society are implemented in laws and other moral rules. Most incentives are provided by this institutional framework. It influences people’s economic and non-economic actions to a high degree. Therefore, from *Homann*’s point of view, the central problem of ethics is how to arrange the *regulatory framework* for an economy in order to enable and induce *morality*. He considers the free market system to be the best known instrument to achieve solidarity among all people (ibid: 49).

According to *Homann*, the institutional framework of an economy constitutes the systematic moral point of view. Problems of business ethics, as opposed to economic ethics, arise from the systematic imperfection of this framework. It cannot be perfect in a dynamic world since people’s economic conditions and values continuously change. In a global context, there are different, diverging rules that stand in conflict with each other. Moreover, there is a lack of rules in international trade. Furthermore, the systems of rules are imperfect as people and machines make mistakes and errors.

*Homann*’s concept of business ethics is related to the views of *Albach*, *Hax* and *Schneider* since it appreciates the free market systems and uses economic methods and models. But contrary to their position, *Homann* emphasizes the necessity of business ethics in order to analyse and solve moral problems in firms. Many managers in

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<sup>11</sup> In this article, *economic ethics* generally refers to ethical questions in economic contexts, whereas *business ethics* more specifically relates to organisational aspects of the individual firm.

practice approve of this concept as it points to the importance of the regulatory framework and reduces their individual responsibility.

Homann deduces the problems of business ethics from the imperfection of the institutional framework. Therefore, this order cannot provide enough incentives for all people to act morally. But two questions are raised: Would it be desirable to have a perfect framework of moral rules? Does the lack of incentives result from the imperfection of the free market system or does it, quite the contrary, constitute a fundamental element of this system? Ethical and religious freedom is characteristic for modern, free societies. Within the acceptance of human rights as protected by constitution, each person shall be able to choose his/her own basic values. If a society accepts the variety of moral opinions within the limits of human rights and the laws of that society, a perfect framework of moral rules and incentives will not be desirable. This is reflected by the basics of a free market system where decisions on scarce resources are assigned to individual market competitors. So entrepreneurs and managers have a high degree of manoeuvrability, which they can extend through innovations, etc. Furthermore, they can deliberately specify the exact formulation of their goals and their acceptance of risk. The market competitors' freedom is one of the fundamental elements of a free market system (Watrin 1999: 216ff.; Schlecht 1999: 289ff.). Therefore, business ethics does not result from the imperfection of the moral framework of a free market system. It is a consequence of its constitution.

### 3.3.2 The concepts of dialogue-oriented business ethics by Horst Steinmann and Peter Ulrich

Discourse ethics, as developed by *Jürgen Habermas* and others (Apel 1986; 1990; Habermas 1990; 1993; 2001), has received significant attention in academia. *Horst Steinmann*, a prominent representative of German academics in business administration since 1980, has referred to the philosophers *Paul Lorenzen* and *Oswald Schwemmer* (Lorenzen 1991; Lorenzen/Schwemmer 1975). They argue for the method of a 'trans-subjective discourse', according to which norms have to be installed and adopted in a process of communication by argumentation in a group or a society. It is called trans-subjective if the participants are willing to revise their subjective opinions within this process of argumentation. *Steinmann* applies the ideas of *Lorenzen* to business ethics. A central experience of actual life is the existence of conflicts on values in all areas of society including politics and the economy. It is most important for modern society that these conflicts can be solved peacefully.

Therefore, the *attainment of peace* forms the central piece of *Steinmann's* business ethics conception. It will only be achieved if conflicts can be solved in consensus between all persons involved. In order to come to such a consensus, these persons have to engage in a *dialogue* which is characterized by the features of non-prejudice, non-persuasiveness, non-coercion and the participants' communicative competence. Based on these principles, *Steinmann* derives rules concerning the strategy, the organisational structure and the culture of a firm. Employees have to be trained in their ability and readiness to engage in dialogue. Managers must have the function of an '*integrator*' to motivate employees for critique and dialogue. According to *Steinmann*, the goal of profit maximisation is ethically legitimate in free market systems. Therefore, firms

have to make *profit* as long as this does not conflict with the subordinate principle of peace. Business ethics then has to analyse and to discuss in which situations and to what degree profit seeking has to be limited by this higher-ranking principle.

In an approach more radical than that of *Steinmann*, *Peter Ulrich* argues from a philosophical and economic point of view and suggests that ethics outranks economics. He thoroughly analyses arguments in defence of free market systems and of economics, and comes to the conclusion that “business ethics [is] the constitutive normative prerequisite of any legitimate entrepreneurial behaviour” (Ulrich 2001: 428). Economic conflicts must not only be solved efficiently; the solutions have to be legitimated in a process of discourse between all concerned persons. *Public discourse* is the place for an ethical and political integration of economics.

*Ulrich* does not accept the argument that competition would impose insurmountable practical constraints. In his view, *economic rationality* and *efficiency* cannot be the ultimate goal. As people have different capabilities, variable resources and economic points of departure, (Pareto-) efficiency cannot be the basic principle of economic order. Economic market systems are not an end in themselves but are a means for improving life. Therefore, *ethics* should dominate economics.

In order to put this idea in concrete terms, *Ulrich* develops his concept of ‘*integrative economic ethics*’. To legitimate public order, three types of *personal rights* have to be installed: human rights, political and economic citizen rights. The last category shall guarantee basic means of existence and living conditions for all. A market system is legitimated if it offers all people the highest degree of freedom and best opportunities. Integrative economic ethics relates to *three levels* (Ulrich 2000: 50-52). *First*, principles and rules on co-existing in society form the *ethics of economic citizens*. Here, *Ulrich* argues that people should not solely pursue egoistic goals and maximize their private utility. On the *second* level of the *politico-economic order*, ethics concerns the political framework of the market. There, the primacy of political ethics over the logic of the market has to be guaranteed. *Business ethics* is on the *third* level. It includes a responsibility for management to find a profitable and at the same time “life-conducive” corporate mission. Furthermore, companies and their managers are also responsible for the legitimacy and life-conduciveness of the market system, particularly the market competition. These tasks of business ethics have to be considered by management and corporate governance, and with regard to the relationships with the firm’s stakeholders. In management the concept of *dialogue* must be installed. Conflicts have to be solved by means of discourse including all persons involved. If certain parties involved cannot bring forward their interests by themselves, these still have to be accounted for in terms of the company’s “social responsiveness”. The same idea of a consensus-oriented management should be applied with regard to the *stakeholders*. Corporate governance must protect the rights of employees and shall warrant rights of employee participation.

The concepts of *Steinmann* and *Ulrich* are explicitly *normative* and argue for limits to profit orientation. Both recommend engaging in a dialogue with the persons involved within a firm; *Ulrich* extends the argument to the firm’s stakeholders. They establish their positions mainly on normative arguments rather than on empirical data. Thus, they do *not* discuss the *empirical consequences* of their proposals, for example the conse-

quences of dialogues and co-determination on the results and length of decision processes in a firm as well as on profit. *Ulrich* scrutinizes the hypothesis of practical constraints in an economy, but he does not analyse the empirical constraints resulting from the scarcity of resources, the existence of global markets, etc. The concept of discourse seems to be very or even too optimistic. Realistically, it is often very hard and sometimes impossible to reach consensus as basic values and meanings differ too much. In this case, other rules of conflict solving seem to be inevitable.

Although *Steinmann* is a representative of German-speaking business administration and promoted his concept as early as in the 1980s, business ethics has still not developed into an integrated part of research and education in this discipline. This may be explained by the broad acceptance of the principles of free market systems in the German business administration mainstream. There, normative positions and arguments stand vis-à-vis: economists such as *Albach*, *Hax* and *Schneider* on the one side opposite representatives of discourse ethics such as *Steinmann* and *Ulrich* on the other. Normative arguments cannot be evaluated unambiguously. There has been a long-lasting conflict between the (normative) concepts of stakeholder orientation and shareholder orientation. This conflict leads to the hypothesis that ethics will not be fully accepted in business administration as long as it is combined with certain normative positions. Normative concepts of business ethics will not achieve full acceptance in business administration as long as they do not refer to empirical fields of investigation such as production, marketing, or accounting. Business ethics should refer to special empirical problems which are relevant in practice and therefore have to be investigated in research and included in education.

#### 4. The concept of analytical business ethics

##### 4.1 Necessity and basics of analytical business ethics

Following the arguments above, business ethics has to *analyse* moral problems in firms. The professional work of people in profit and non-profit organisations forms a considerable part of their life. Therefore, actions in those institutions form a *relevant object* of consideration for ethics. Its instruments and methods should help to recognise, to analyse and to solve moral problems in practice. In this way their results should become fruitful to manage moral problems in firms. If research in business ethics can reach these targets then it can also become a necessary element of education in business administration by preparing future managers to handle the moral problems facing their firms.

The central requirement for scientific statements is seen in their *intersubjective verifiability*. It is important for business ethics that different kinds of scientific statements require different criteria of verification. Three different *types of statements* have to be distinguished: logical, empirical and normative statements (see figure 1).

	<i>Type of Statement</i>		
	<i>logical</i>	<i>empirical</i>	<i>normative</i>
<i>Characterisation</i>	deduction	statement on reality	judgement, recommendations
<i>Criterion of Verification</i>	logical axioms	reality	respective individual
<i>Verification</i>	proof	empirical tests	citing reasons
<i>Validity</i>	universal, verifiable	universal, falsifiable	individual, social, open

*Fig. 1: Important types of scientific claims*

*Logical statements* rely on logical derivations as known in mathematics and formal logic. They can be proved using axioms and (proved) mathematical theorems. This is a very strong type of truth, but comes with a disadvantage. Logical statements are strictly formal, i.e. they are tautological and in that sense do not say anything about reality. *Empirical statements* aim at generating knowledge about reality, be it with respect to singular facts or general hypotheses on relations between empirical facts. Here, the criterion of verification is given and clear; it has to be the empirical world. The ‘empirical’ truth of those facts has to be tested in reality. There is an important difference concerning the verifiability and, consequently, the possible degree of confirmation of logical and empirical statements (Popper 1994: 31ff.). Empirical statements cannot be proved. The test of an empirical statement can end in either a temporary confirmation or a refutation. In consequence, empirical statements can only be falsified, not verified or proved.

Ethics often implies *normative statements* which include a valuation of an action or event. Such statements can be neither logically nor empirically true. Their validity depends on values and judgements. While logical truth is valid for all cases in the range of the axioms’ assumptions from which the statement is deduced, and while empirical truth depends on reality and can be tested by everybody, values can only be accepted personally. Normative statements lack an unambiguous criterion of verifiability like logic or empirical reality. If science is founded on the verifiability of its knowledge, one has to accept that research on norms and values can only satisfy limited scientific standards. We can only find ‘good reasons’ to support them. The task of science here has to be the analysis of norms, values and normative rules.

Considering this lack of a clear *criterion of verifiability*, science has to respect everybody’s freedom to accept fundamental principles and moral values for themselves. The objective of business ethics should not be the justification of certain norms and values but their analysis. Economic agents themselves such as managers, customers, etc., have to choose values. It ultimately remains their decision whether or not to agree with the moral assessments provided by business ethics.

## 4.2 Dimensions of analytical business ethics

The issue of analytical business ethics is to analyse moral problems in firms. Such analyses can be undertaken within several dimensions including empirical research, logical deductions and the analysis of reasons to justify evaluations.

The *first dimension* relates to *existing norms and values* accepted by the members of firms in reality. Within this dimension, business ethics has to explore the empirical background of the *acceptance of norms* by those people and the influence of such values, norms and rules on the decisions and actions taken by organisations. In this context, empirical research methods such as questionnaires, statistical tests, hypotheses of behavioural sciences as well as insights of experimental sciences play a crucial role. Therefore, insights on social preferences explored by experimental decision theory<sup>12</sup> can be interpreted as part of descriptive business ethics as well as of decision theory.

Values and norms influence the decisions and the activities of individuals. As we know from psychology and neurobiology, many of these are anchored in the sub-conscious, influencing conscious actions to a high degree. Therefore, the *analysis of ethical values, regulation systems and morals* in firms forms a *second research dimension* in business ethics. These issues gain importance with an increasingly globalising economy, because people with different cultural backgrounds meet on markets or work together in international firms. As one can see, different types of religious education (for example in Christian or Islamic countries) may lead to varying fundamental values. Arguably, a company will have less internal conflict and will more likely achieve coordinated decisions among those members that have equal or comparable basic values. In that sense, a company will be interested in a good “firm culture”, i.e. a high level of agreement among their members on common values. But not only fundamental values are relevant. Companies often implement principles such as codes of ethics in order to influence the decisions of their members. One can also say that the acceptance of moral norms saves costs (Homann 1988). Furthermore, their acceptance increases the predictability of actions. The impact analysis of norms and values includes empirical research on such effects of explicit principles in firms.

A *third research issue* relates to the *connections between ethical values and economic criteria* such as productivity, profit or market value. There may be complementary, indifferent or conflicting relationships which are based on logical connections and empirical influences. The results of this issue form the input for *conflict analyses*. It is important for a firm to discover such conflicts as early as possible as they may reduce employee motivation and efficiency. In decision theory, various methods have been developed to solve conflicts between the different goals of a firm. These instruments can as well be used to handle conflicts between economic and ethical norms.

In principle, one can distinguish between two *types of solution methods*. The *first* type refers to a *given quantity of alternatives*. Such conflicts can be solved by goal suppression, the definition of aspiration levels, goal compromises and an interactive preference

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<sup>12</sup> See e.g., Fehr/Schmidt (1999), Fehr/Fischbacher (2002), Fehr et al. (2005).

formation<sup>13</sup>. The *second* type of methods for solving conflicts between economic goals and ethical criteria *changes the number of alternatives* available. The basis of this method is an analysis of the different possible relationships between them, as shown in Figure 2.

In principle there are *four* possible cases. If the optimisation of profits coincides with accepted moral norms there is no problem for the firm. That is the case of *positive compatibility* (I). Opposite this case is the possibility of *negative compatibility* (IV), which companies will try to avoid. Conflicts arise in the other two fields when either profitable alternatives violate moral norms (II: *moral conflict*) or alternatives fulfil accepted moral norms but are not profitable (III: *economic conflict*). If none of the already known alternatives belong to the first type cases, the best way to find a solution is to seek new alternatives which are both profitable and morally acceptable. With regard to environmental problems, new techniques have often been found which fulfil this condition. This seems to be a relevant experience for other problems of business ethics. Furthermore, mechanisms to evaluate the different goals and/or to find unknown new alternatives are needed. Both types of statements show possibilities to solve such conflicts in practice. The managers themselves have to choose between them; the evaluation remains their responsibility.

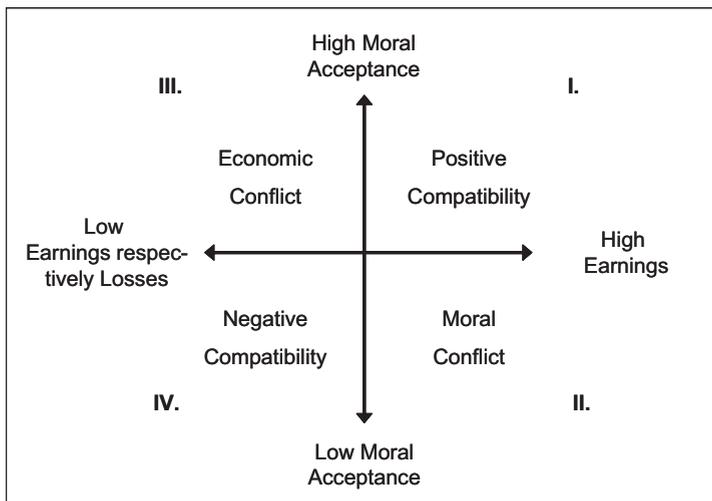


Figure 2: Different relationships between profits and morality<sup>14</sup>

Only the *last dimension* of analytical business ethics addresses *normative* issues. Philosophy of science provides the important insight that evaluations necessarily imply normative statements. It is not possible to deduce evaluations from purely empirical statements. Therefore, justification in business ethics always includes a reference to

<sup>13</sup> See Ijiri (1965), Kofler/Menges (1996), Krelle (1968), Kleindorfer et al. (1993), Eisenführ/Weber (2003).

<sup>14</sup> Translated from Homann/Blome-Drees (1992: 133).

other (basic) norms and values. As shown in figure 3, *philosophical patterns* of argumentation<sup>15</sup> such as metaphysical fixation<sup>16</sup>, contractarian<sup>17</sup>, procedural<sup>18</sup> or rational<sup>19</sup> justification are a background to find arguments for basic values. In order to justify specific values, norms and rules in *business ethics*, two types of patterns can be used which refer to logics or to reality. *Logical* mechanisms of *justification* try to logically link normative statements to basic values. This may be done systematically or – even stronger – by means of formal models. If basic values such as the respect for human beings, freedom, justice, etc., or the principles of a free market economy are taken as given, one can try to connect them with norms and rules relevant to decisions taken by a firm. Economics relies on numerous (mathematical) models in which results are formally deduced from given assumptions. For instance, basic values on social preferences may be included in utility functions in principal agent models (Fehr/Schmidt 1999). The result may be incentive mechanisms, concrete goals, performance measures, etc., that – normatively – seek to influence behaviour towards a certain direction.

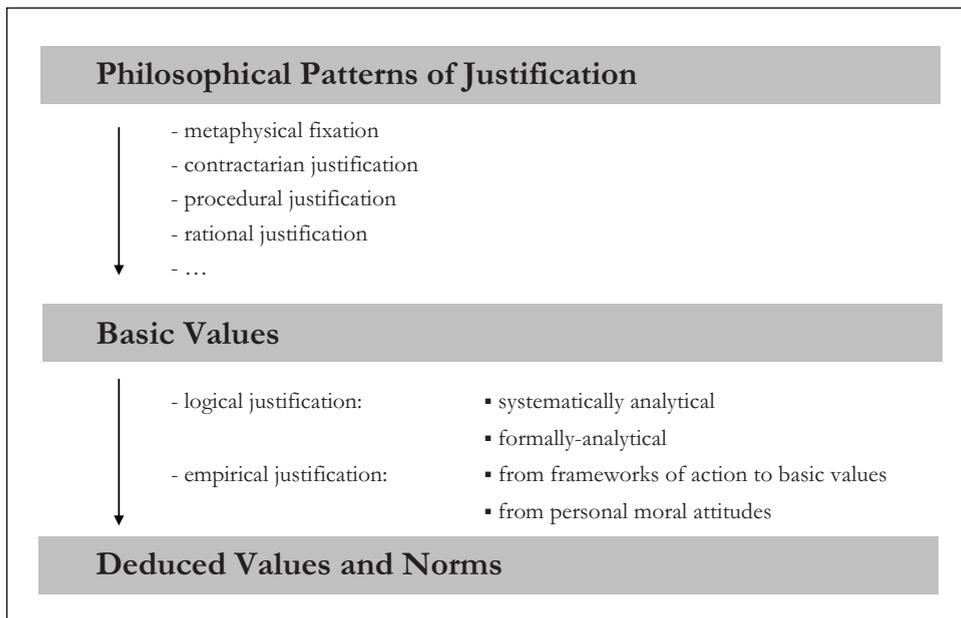


Figure 3: Justification patterns and deduction of values and norms

<sup>15</sup> Cf. Küpper (2006: 83-94).

<sup>16</sup> See for example Kant (1968: 434ff.) and Bonhoeffer (1998).

<sup>17</sup> See Rawls (2003), Brennan/Buchanan (1987), Buchanan/Tollock (1982).

<sup>18</sup> See Apel (1986; 1990), Habermas (1990; 1993; 2001), Lorenzen (1991), Lorenzen/Schwemmer (1975).

<sup>19</sup> See von Neumann/Morgenstern (1944) and Luce/Raiffa (1957).

In patterns of *empirical justification*, the connection between basic values and deduced values comes from empirical knowledge. Norms, principles and rules of a firm are justified in this way as they have consequences which coincide with accepted basic values. It seems to be important that both types of patterns include testable logical or empirical statements. This means that relevant parts of the pattern of justification can be justified by means of well-known scientific methods. This part of a justification can be confirmed to a large extent. Only the basic values reflected by these justifications cannot be tested and must be accepted.

### 4.3 Areas of application in analytical business ethics

Firms can be characterized by their *production processes* in which several input factors such as materials, machines, labour, etc. are used to produce material goods or immaterial services. Normally, these products are meant to be sold in markets. In order to steer these production processes, companies have an organisational structure and use *management* instruments such as planning, supervision, human resource management (incentives), management accounting and information systems. The production system and the management systems are integrated into rules of *corporate governance*. Following this general classification, problems of business ethics have to be analysed in the areas of corporate governance, management and production (processes). Considered this way, analytical business ethics refers to those moral problems that arise in these areas. In each of them, managers are confronted with those problems in practice. Therefore, the dimensions of analytical business ethics have to be applied to problems in all these areas. The matrix depicted in figure 4 provides a way of systematically analysing moral problems of firms.

Areas of Application Dimensions of Analysis	Corporate Governance	Management				Production System		
		Decision and Responsibility	Value and Goal System	Human Resource Management and Organisation	Accounting System	Production	Marketing	Investment and Financing
Business Ethics Questions								
Impact Analysis								
Relationship and Conflict Analysis								
Justification Analysis								

Figure 4: Matrix of relevant issues in analytical business ethics

Following this classification scheme, various areas of scrutiny become apparent. *Corporate governance* determines basic elements of a firm's constitution, e.g. the question whether to implement a one-tier or two-tier system. It works as a formal framework for a company. Recently, codes of conduct have become an important element of corporate governance in Europe and in the USA. Several corporate scandals including

irregularities in financial accounting, corruption, etc. highlighted the significance of ethical standards for firms. Such events can be observed in several countries and are therefore relevant for empirical analyses of the impact of moral norms on profits. They make clear how case studies and further empirical research studies are an important part of business ethics.

In Germany, discussions of corporate governance and different concepts of codes of conduct presented by the OECD, a governmental commission, and others<sup>20</sup> have so far concentrated on classifications of the codes' norms. This discussion of codes of conduct shows the importance of systematic methods of conflict analyses and justification. In recent discussions, most people (frequently influenced by the legal profession) have tried to justify individual norms by basic constitutional norms. This means that they want to justify individual norms by systematic analytical deduction. Codes of conduct serve as an instrument to influence the behaviour of decision makers in firms. However, their implementation as formal elements of corporate governance will only be successful if they indeed influence behaviour. Therefore, empirical research is needed on whether they actually do influence behaviour in intended ways.

While *decisions* have been an important issue of research in economics, *responsibility* has been a central issue of ethics. There are close similarities between decision making and responsibility. Both refer to persons or groups of persons as well as to actions. Responsibility is mostly connected to that person or group of persons who took the relevant decision. In order to find the optimal alternative in decision processes and to evaluate responsibility one has to examine their consequences. A criterion to evaluate these consequences is therefore needed. Furthermore, there are similar problems in decision making and in the evaluation of responsibility caused by multi-dimensional interrelationships between actions and their consequences, uncertainty and decisions within groups (Küpper 1999).

The *goals of a firm* are a central basis of planning. In a market system private companies need to make profits in order to avoid bankruptcy. In that sense, their central goals such as liquidity and profitability seem to be pre-determined. However firms may choose a different precise definition of this goal depending on whether it is from a short or long-term perspective. For example, there are different definitions of profit – shareholder value, market value, present value, periodical profit before or after taxes, contribution margin and so on. Furthermore, most companies pursue additional, non-monetary targets besides liquidity and profit, e.g., productivity, the quality of products, environmental objectives and social goals such as employee job security. These choices are a relevant issue for business ethics. Based on empirical analyses of the concrete aims pursued in practice, the relationships between those goals and ethical values, existing conflicts and their solutions as well as the justification of these goals have to be analysed.

In the area of *human resources management* and *organisational structure* the links between individual goals and those of a firm become apparent. For all employees the relationship to their superiors and to their colleagues is important, as are their opportunities

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<sup>20</sup> Regierungskommission Deutscher Corporate Governance Kodex (2002), Werder (1996a; 1996b; 2001).

to realise capabilities and personal goals in professional work. The influence of individually accepted values on the behaviour of the employees in a firm is large. Therefore, the conflicts between the goals of the organisation and the individual goals are especially relevant for the satisfaction of the employees and their motivation on the one hand and for the profit of the firm on the other. Relevant insights to understand and to explain the existence and the influence of individual values can be found in psychology and in neurobiology<sup>21</sup>. These sciences have developed and tested hypotheses on the relation between values and subconsciousness. They help understand the processes by which a person adopts moral values and clarify whether or not these processes can be changed. In order to protect employees, human rights catalogues for employees have been suggested (Ulrich 1999; 2002). Parallels to the codes of conduct in corporate governance are apparent. This raises several interesting research questions of corporate social responsibility, e.g. whether such norms influence the profitability of a firm, how that can be measured and by which methods corresponding empirical hypotheses can be tested.

Prima facie, intersections between *accounting* and ethics are not very obvious. However, a closer analysis reveals certain interrelations, as principles and rules are very important, especially in financial accounting. The proximity of standards on financial accounting to moral norms is indicated by terms such as ‘truth’, commonly used in both areas. Some scandals have shown that the correctness of accounting and its reports are closely related to moral problems.

Finally, moral attitudes influence the *production system* of a firm. Therefore, business ethics has to analyse moral problems concerning operations management, marketing or investment and finance. In *operations management* problems of environmental pollution have gained more and more importance. One must know the laws of physical and technical coherences in order to understand the impact of production processes on the environment. Such knowledge is necessary if a company wishes to develop new products and to discover new technologies that will mitigate pollution. In *marketing* misleading information on products, price policy of monopolists, secret price agreements, immoral advertising, and so forth are typical examples of moral problems (Kaas 1999). In the long run, firms have to consider the moral norms of those countries in which they want to sell their products. Therefore, it may be reasonable to integrate marketing strategy with a strategy for social responsibility<sup>22</sup>. *Investment and finance* also raise moral problems on various levels which necessitate ethical analyses. These include issues such as socially responsible investments (Schröder 2004; Waddock 2003), insider trading and similar problems of stock markets (Rudolph 1999).

## 5. Integration of business ethics in business administration

In recent years, numerous incidents have demonstrated that companies are constantly confronted with various *moral problems*. Therefore, these problems must be an issue of research and education in business administration. To that end, normative decision

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<sup>21</sup> See Roth (2003), Singer (2003), Camerer et al. (2005).

<sup>22</sup> See Robin/Reichenbach (1987), Porter/Kramer (2006), Kotler/Lee (2005).

theory and economics are not sufficient as they are limited to economic categories. In order to direct attention to *moral aspects of human beings* (e.g., regarding life, personal liberty, etc.), relations between economic categories and individual as well as social values have to be established. In modern societies, people have the freedom to choose their own values within the limits of human rights and law. This manoeuvrability is as well a central characteristic of free market systems. Business ethics conceptions that are based on *normative concepts* only have *little* prospect of being accepted by academics and managers.

Therefore, this paper developed an alternative conception. The starting point of business ethics is not seen in a normative position but in the moral problems and conflicts of businesses. This approach *opens new perspectives* and allows for the use of *logical* and *empirical* methods and knowledge familiar to business administration academics. Thus, the *problem of justification* of norms does not dominate scientific and practical discussion. Instead, it is only subject to one (and the last) dimension of analysis, in which logical instruments and empirical knowledge are used as much as possible. This builds a bridge to classical areas and methods of research and education in business administration.

Such an *integration of business ethics and business administration* is necessary in Germany. In other, especially Anglo-American, countries it developed into an important part of research and education much earlier<sup>23</sup>. Those experiences and research results can help to install business ethics as a standard part of education in German-speaking countries. It is surprising that this process has been so difficult in a country with such a long and outstanding tradition in philosophical ethics as in Germany. This paper has shown several reasons for that fact and has developed a way to connect the discipline of business administration to this renowned heritage in Germany.

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<sup>23</sup> See Collins/Wartick (1995), Crane/Matten (2007), Matten/Moon (2004).

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